

14 October 1977

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MEMORANDUM FOR:

FROM: Herbert E. Hetu
Assistant to the Director
(Public Affairs)

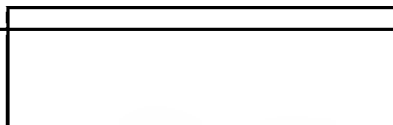
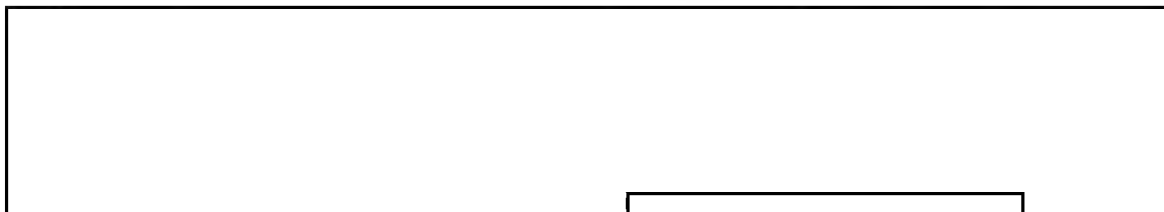
SUBJECT: DCI's Appearance at the Economic
Club of New York

REFERENCE: Your Note, Same Subject, Dated
3 October 1977

1. Per your request for a suggested questioner for the DCI during his appearance at the Economic Club of New York on 7 December, a well-qualified and appropriate nominee from the news media is Robert L. (Bob) Keatley. Mr. Keatley is the Washington-based correspondent for the WALL STREET JOURNAL, covering economic and foreign affairs. From 1964 to 1968, Mr. Keatley was the Asian Bureau Chief in Hong Kong for the JOURNAL and has been in Washington since that time.

2. Attached are two stories he has done on the Soviet economy and one on SALT, for your information.

25X1



Herbert E. Hetu

Attachments: a/s

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EX-107 20 OCT 1977

Public Affairs

Global Report

Promises, promises; or borrowing Russian style.

The Soviets are becoming increasingly dependent on promissory notes as a means of financing their imports, according to the U.S. Central Intelligence Agency.

In most cases, these are five-year notes that both American and European exporters are accepting in lieu of cash. The paper interest rates of 8.75% normally carries to 7.5%. Often, importers jack up their prices to lift the effective interest charge to 10% or so, with full knowledge of the Soviets.

The exporters discount the notes to Western banks, turning the promissory paper into what the CIA calls "a marketable credit instrument that is often viewed by Western bankers as an alternative to direct lending to the U.S.S.R."

By using promissory notes, the Soviets get around some bank concern about overlending directly to the U.S.S.R. It also lets the Russians pretend they aren't paying interest rates that are, in reality, much higher than basic Western charges.

Moscow is expected to use the method whenever possible to get medium and long-term private financing in the next year. It also is expected to need a medium-term general-purpose syndication to consolidate some of its debt.

Bank of America recently syndicated \$32 million of these promissory notes at rates up to 1.63 percentage points above the bank borrowing charge for dollars in London. Moscow doesn't like to pay more than 1.25 points above the London rate, but it has to, or pay much higher front-end fees.

In all, Moscow this year is expected to raise between \$1 billion and \$2 billion through such actions.

—ROBERT KEATLEY

Slower Soviet Economic Growth Due to Labor Shortages, Weather Woes

By ROBERT KEATLEY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Soviet Union will have slower economic growth rates during the next few years because of labor shortages and bad weather, according to two newly released studies by the Central Intelligence Agency.

The studies support the conclusion of many analysts that the U.S.S.R. faces difficult economic times for a wide variety of reasons—some aggravated by the Soviet political system and others, such as climate, out of Russia's control.

This broad conclusion leads some experts to believe Moscow therefore is increasingly interested in better relations with the U.S. New arms-control agreements, for example, could reduce the military's drag on the civilian economy; the CIA believes that from 13% to 15% of the Soviet gross national product goes to defense.

And better relations could lead to increased trade, especially Russian import on foreign technology. That would improve labor productivity and partially offset manpower shortages. It might also increase output of export-quality goods needed to finance grain imports.

Whether these broader political judgments prove true, the two CIA studies—which confine themselves to narrower issues—outline problems that must cause Soviet planners much worry.

Poor Grain Crops Seen

Most surprising is a CIA forecast of poor grain crops during the next few years due to significant climatic changes currently taking place. The agency officials who drafted the report don't believe the 1976 Soviet grain harvest—a record 224 million metric tons, 2,204.8 pounds each—contradicts their rather negative longer-term prediction.

During the current five-year plan period, which ends in 1980, the CIA believes the average Soviet grain-crop yield will be about 200 million metric tons, about 17 million below the official goal. Moreover, this is 25 million or 30 million tons below expected Soviet needs if livestock herds expand as planned.

One implication is that Moscow will remain a major grain importer, in some years as big a buyer as after the disastrous 1975 harvest. However, the CIA believes Russia will counter most shortages by reducing needs, such as by slaughtering livestock, rather than let herds expand on schedule.

Goal of Self-Sufficiency

If such shortages occur, it would be a major setback for Kremlin planners. For both political and economic reasons, the Soviet Union wants to be self-sufficient in grain and even remain a major supplier to Eastern Europe. In addition, Russian leaders have promised the public an improved diet featuring more meat and dairy products; this requires increased amounts of animal feed.

Thus a period of persistent shortages could hurt in several ways. It would reduce

farm products available as raw materials for the food-processing industry. It would force Moscow to spend hard currency on grain rather than on technological goods and it might cause internal political problems if promises of higher living standards aren't kept.

The reason for this pessimistic prediction is the weather. "The 1975 drought does not appear to be an aberration but part of a drier trend which can be expected to occur with varying degrees of intensity for some time to come," the CIA report states. This means, it concludes, "a return to the harsher conditions of the early 1960s"—when the U.S.S.R. also had harvest problems.

The CIA says climate changes across the Northern Hemisphere promise drier weather for the Soviet Union. The agency says this will most heavily affect "the southern fringes of the grain belt," which in recent years have been large producers. Less rainfall, particularly in these marginal areas, will mean lower yields.

Effects of Weather

As proof of the importance of weather, the CIA concludes that more than half of the Soviet Union's annual harvest increase since 1962—a period of wetter-than-normal weather—was due to climate rather than improved efficiency.

This adverse economic factor will be aggravated by labor shortages, according to the other agency study. It says "the Soviet economy, hobbled since the early 1960s by sluggish technological advance, faces a slowdown in employment growth through the 1980s that could further arrest the pace of its economic developments."

One main reason is a long-term decline in the birthrate, which means fewer potential workers become available each year. For example, after increasing 2.7% in 1975, the work force rose only 1.9% last year; in 1988, the increase will be only 0.2%.

In addition, there isn't any great reservoir of potential workers to tap. Already 89% of the women between ages 20 and 54 are employed, while 93% of the men between ages 20 and 59 have jobs. "Practically the only potential sources of additional labor, therefore, are among the young (16-19) and the retired," the study says.

Five-Year Plans' Records

This puts a special premium on efficiency. However, the Soviet record isn't good; five-year plans generally fall short of their productivity goals, which means continuation of what the CIA calls "the unusually wasteful use of labor in the U.S.S.R."

For example, the current (1976-80) five-year plan calls for an annual economic growth of 5%. But to achieve this, the CIA believes productivity—output per hour of work—would have to increase 3.5% yearly during the period. But productivity increased only about half that rate (1.8% annually) in the previous plan, making the higher new goal an unlikely accomplishment.

Moreover, to meet longer-term productivity increase would have to be achieved during the 1980s—even more.

The study claims Moscow can drain manpower from rural areas to meet industrial labor needs as this "could help meet farm output goals" (especially agency's long-range weather forecast). Neither can it meet civilian needs for reducing the 3.7 million people in "excess" forces; "any reduction would be substantial to have a significant civilian work force that currently almost 130 million persons," it says.

The basic solution, according to the study, is to make "drastic changes in incentive systems." For example, rules could be changed to let Russians retire earlier (55 for women, 60 for men) without suffering financial losses. More basic economic reforms could have even greater impact. Communist Party has rejected such proposals for fear it would lose tight control over the public.

Are Emotions Blocking Arms Limits?

STAT

Approved For Release 2004/05/05 : CIA-RDP80M00165A002500020021-8

By ROBERT KEATLEY

WASHINGTON--Two years ago, in the cold, snowy and remote Russian port of Vladivostok, the second strategic arms control agreement almost was born.

But not quite. President Ford and Soviet Communist Party General Secretary Leonid Brezhnev drafted a general outline that left certain issues for later; they remain unresolved. Now there's doubt whether the treaty will ever be completed. The lame-duck Ford administration is passing the problem to Jimmy Carter; once in office, he may decide to start all over.

The reasons for this long delay—and perhaps outright failure—include the unavoidable complexities of nuclear technology. Because the talks concern the main weapons systems of the superpowers, any agreements would be difficult in the best of times.

But these aren't the best of times for Soviet-American relations. Thus the proposed second Strategic Arms Limitation Talks treaty (SALT II) has also foundered on nuclear theology—disputes about the purposes and desirability of arms control efforts. Doubters so far have blocked SALT II for reasons which they call technical but are often also quite emotional, such as gut distrust of the Russians.

What Mr. Carter does about SALT will tell much about how he plans to manage foreign affairs, for this is among the early problems he must face. Existing controls on offensive nuclear weapons expire next October; if no new ones are in force by then or if the old ones aren't extended, official restraints will end. Then each side will be legally free to build any nuclear arms its budgets and technology can provide.

Mr. Carter says he favors tight controls and hopes to have "a comprehensive agreement" by fall. Otherwise, "I would be very likely to ask for an extension of the present (SALT I) agreement," he adds. In any case, the partially completed SALT II treaty could be junked.

"Everything we've done could prove academic," says one official who has spent much of the past few years working on its complex provisions.

Elusive 'Good Will'

Yet the remaining obstacles to an accord seem relatively minor to experts who want the deal completed. These stumbling blocks are two weapons which weren't even discussed at Vladivostok, the American cruise missile and a Russian bomber which the West calls Backfire. SALT's friends contend neither now poses a substantial new strategic threat, and so devising sensible controls should be relatively easy, given good will.

But good will doesn't always exist. "SALT is involved in an ideological debate," complains a senior U.S. negotiator. "Those against it for other reasons just use these issues to oppose any agreement."

Such officials contend SALT's skeptics first used a demand for equal numbers of Soviet and American long-range offensive weapons to hinder arms control efforts. When Moscow agreed to equal numbers at Vladivostok, it's said, they then stressed the "throw-weight" issue—namely that Russian missiles are bigger and more powerful, thus perhaps superior. When studies showed that sheer size and brute force had surprisingly little military significance, according to this story, the doubters grabbed the cruise missile and Backfire bomber issues.

Naturally, SALT's greatest skeptics—namely Defense Department officials—say otherwise. They claim cruise missiles and Backfire bombers threaten to destroy the existing nuclear stability. That's SALT II restricts the Russians while letting the U.S. push ahead with certain weapons projects, they doubt the wisdom of signing terms already negotiated. And they deny they're merely finding excuses for doing nothing.

"This building is serious about SALT," insists a Pentagon strategist, who suggests the Russians aren't.

In this view, Moscow, while talking about arms controls, is busy building new

weapons whose purposes seem sinister. Not only are several new long range rockets under construction but a new medium-range, multiple-warhead model for possible use against Western Europe is being developed. There is also a massive buildup of conventional weaponry by the Moscow-dominated Warsaw Pact.

"The Soviets seem to be preparing to fight and win a war if one comes," says a Pentagon official. "This causes us to question their long-term objectives."

Coupled with distrust of the Russians is the drive of advancing technology. Military men find it difficult to foreclose an option once a new weapons possibility arises. The cruise missile, a small pilotless jet, promises to be a versatile weapon, and the generals don't want to surrender it. Yet, ironically, many Air Force generals are in no rush to develop cruise missiles because they would threaten the existence of some present-day forces, perhaps replacing tactical aircraft squadrons.

And though some Navy admirals would like to put these weapons aboard submarines, other admirals see this idea as a budgetary threat to alternative ship and sub forces they want to build. So there is a widespread insistence upon the right to build cruise missiles without much urgency to go ahead and do so.

Which strikes many other officials as ludicrous. The point of arms control talks, they emphasize, is after all to control arms. "SALT limits the services' prerogatives in planning new weapons; that's why they don't like it," insists one official. "If you let the military always keep all its options open, then you'll never have any arms control agreements," complains another.

Long-range, strategic-mission cruise missiles would be too slow and vulnerable to provide a significant military advantage anyway. (Short-range weapons wouldn't be covered by SALT.) So they insist nothing crucial is sacrificed if a treaty restricts their development.

These officials also insist the U.S. would run no great risks if the Russians were allowed to build a fleet of Backfire bombers. This plane was designed as a "peripheral" weapon—for potential use in Europe or against China, rather than against more distant targets. It is supposed to operate at low altitudes over medium ranges at supersonic speeds. But if it flies high and away from certain Soviet bases, it could reach some U.S. cities. SALT proponents, contending the Backfire would be vulnerable, say the strategic importance of this potential is marginal at best; skeptics insist there must be tight controls affecting the Backfire or the Russians will have a worrisome advantage.

Last January Mr. Brezhnev gave Secretary Kissinger speed and range figures which he said proved the plane isn't a strategic weapon, and thus shouldn't be included in SALT terms. The Central Intelligence Agency found this assertion essentially, though not wholly, correct. "... There is agreement... that it is primarily a peripheral weapon at this point. And that is where the deployment has been so far," a CIA official told Congress last summer.

Pentagon experts, however, stress that, depending on base location, flight altitude and load carried, the Backfire "has a capability for an intercontinental mission." Thus they want controls. Mr. Kissinger warns that demanding too many concessions would cause Moscow to revive the issue of U.S. planes in Europe which could strike the U.S.S.R. — something which Washington wants left dormant. So he is ready to be more permissive than the Pentagon.

Missile Give and Take

As things stand now, SALT II would limit each nation to 2,400 "delivery vehicles," including long-range missiles and bombers, of which 1,320 could have multiple warheads, or MIRVs. Other clauses would limit the Soviet right to increase the size of their missiles, thus diminishing throw-weight worries. Moscow has also agreed that aircraft can be armed with 1,500-mile-range cruise missiles, which would be an advantage for the larger American bomber force.

The cruise-carrying bombers would be called MIRVs for verification purposes, thus counting them against the 1,320 limit. The U.S. would make room for such a bomber force by converting submarine-launched Poseidon missiles, now MIRVed, to carry only a single warhead apiece.

Those terms could have been signed as is, putting aside Backfire bombers and cruise missiles. But such arrangements would have struck many Americans as sham controls, so further options were developed within the U.S. administration.

One would have excluded Backfire from SALT's main terms but would have applied "collateral restraints." These would include a ceiling on the number of these bombers. (The CIA thinks Moscow wants to build 400 Backfires eventually and now has about 95.) There would also have been restrictions on aerial tankers which could extend the plane's range, plus a ban against basing it at airfields nearest the U.S. Russian sources have indicated they would accept something of the sort in a SALT package.

In return, the U.S. would have accepted strict limits on its sea-based long-range cruise missiles; a few might be permitted but not many. Presumably, that would make the deal sweeter to Moscow.

And, as a selling-point for skeptical Senators, who must ratify any treaty, there would have been a reduction of the 2,400 delivery-vehicle limit to 2,200 or so. Such a cut wouldn't affect planned U.S. forces much, but would require Moscow to scrap some 350 older weapons.

But none of these proposals could become U.S. negotiating positions, let alone an agreed treaty, unless Gerald Ford got his own administration together in support of them. With the Republican right harassing him during the past election campaign, the President put off decisions till after Election Day and now it's too late; there's no chance of a deal before Mr. Carter comes to town.

The new President will inherit a mass of completed work on a second arms control agreement plus ideas about how to finish the job. What he does with SALT should tell much about the kind of leadership he intends to give the country.

Mr. Keatley, a member of the Journal's Washington bureau, reports on foreign affairs.

The proposed second Strategic Arms Limitation Talks treaty has also foundered on nuclear theology—disputes about the purposes and desirability of arms control efforts.

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OFFICE OF THE DIRECTOR

Approved For Release 2004/05/05 : CIA-RDP80M00165A002500020021-3

Date: 3 Oct 77

ACTION

TO: OER

Executive Registry

FROM:

77-2509

SUBJECT: OCI 7 Dec 1

REMARKS:

Thought remarks re
who should "question"
the OCI after his 7 Dec
address to the Economic Club
of New York. I believe the
questioner will be reading
written questions submitted
by Club members prior to
and during lunch, however,

are still

appropriate (discuss).

EXECUTIVE REGISTRY FILE

Pub Affs

28 May 77

Approved For Release 2004/05/05 : CIA-RDP80M00165A002500020021-3

John -

Suggest you send
this simultaneously
to Herb Hester and OER
for suggestions re
questioners (next to
last para). Maybe a
good economic repater
for the NY Times or
some local economist.

Be careful though - we don't
want some economic heavy
playing cute to the DCI
on his rather than the
DCI's intellectual home
ground.

Borge

ACTION

Approved For Release 2004/05/05 : CIA-RDP80M00165A002500020021-3

Approved For Release 2004/05/05 : CIA-RDP80M00165A002500020021-3
522 Fifth Avenue, New York, N.Y. 10036 • 687-4880 • Edwin A. Locke, Jr., President

September 12, 1977

Admiral Stansfield Turner, USN
Director
Central Intelligence Agency
Washington, D. C. 20505

Dear Admiral Turner,

I was delighted to learn from [redacted] that you will be able to address our December 7th dinner meeting to be held in the Grand Ballroom of the New York Hilton. The reception for the speakers and head table guests is scheduled for 6:30 p.m., dinner will be served at 7:00 p.m. and the program will start at 8:30 and end at 10:00 p.m. It is a black tie affair, and we expect an attendance of about 1,000. STAT

It has been the Club's long established custom to have two speakers, except in the case of heads of state, and as I informed [redacted] the other speaker that evening will be the new British Ambassador, Peter Jay. The title of the Ambassador's speech will be "Fat Years, Lean Years - Can We Control Our Fate?" As I understand it, he plans to discuss the international economic problems of the Free World, including those of Great Britain, and to review possibilities for escaping from the up-down cycles that bring on recessions. STAT

In considering what you might choose as a topic, [redacted] and I were intrigued with the idea of an analysis of the economic situation and outlook in the Communist world. I have the impression that you have been devoting a good deal of personal study and attention to this subject in connection with your new responsibilities. In any event, such a topic would seem to be an extraordinarily good fit with Ambassador Jay's address although, needless to say, you are completely free to speak on whatever subject you choose. We would appreciate knowing reasonably soon of your decision, however, so that we can correctly inform our members and take appropriate steps to assure you of the maximum audience in terms of both quality and quantity.

Immediately following the two speeches of 20 to 25 minutes each we have two highly qualified individuals who act as questioners of the speakers. We find this to be more pertinent and interesting than an unpredictable miscellany of queries from the floor. If you have any thoughts as to who might be a good questioner on the subject of your speech, we would be grateful for them.

Your welcome from The Economic Club and its guest will be a very warm one, and we are looking forward eagerly to having you with us.

Most sincerely,

Edwin A. Locke, Jr.

Edwin A. Locke, Jr.

President

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Herbert E. Hetu, PAO			10/14
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